

**JOINT MEETING
OF THE
BOARD OF LAND COMMISSIONERS
AND THE
ENDOWMENT FUND INVESTMENT BOARD**

APRIL 8, 2003

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Investment Board
State of Idaho Endowment Funds
Administered by the Endowment
Fund Investment Board
Boise, Idaho:

We have audited the general purpose financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the "Investment Board"), a component unit of the State of Idaho, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 16, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Investment Board's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Investment Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S
ASSERTIONS**

Investment Board
State of Idaho Endowment Funds
Administered by the Endowment
Fund Investment Board
Boise, Idaho:

We have examined management's assertions about the State of Idaho Endowment Funds' (the "Endowment Fund") compliance with certain requirements of the Idaho Code, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Variable Spending Policy, during the year ended June 30, 2002, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Fund's compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Fund's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the Endowment Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the Endowment Fund's compliance with specified requirements.

In our opinion, management's assertions that the Endowment Fund complied with the aforementioned requirements for the year ended June 30, 2002, is fairly stated, except as noted below.

The Variable Spending Policy (August 2000) requires that yankee bonds be limited to 5% of the income portion of the total portfolio. As of June 30, 2002, yankee bonds made up 5.5% and 6.6% of the Public and Pooled fixed income portfolio, respectively.

This report is intended for the information and use of the Governor of the State of Idaho, the Legislature of the State of Idaho and the Investment Board and is not intended and should not be used by anyone other than these specified parties.

August 16, 2002

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****STATEMENT OF MANAGEMENT'S ASSERTIONS
YEAR ENDED JUNE 30, 2002**

Investment securities held at June 30, 2002, were in substantial compliance with Chapter 7, Title 57, of the Idaho Code (the "Code"), and with the State of Idaho Endowment Fund Investment Board Variable Spending Policy (August 2000), Variable Spending Policy (August 2001), Investment Policy, Objectives and Guidelines (August 2001), and the following control procedures were in place for the year ended June 30, 2002 to help ensure compliance with the Code and Policy:

- Investment managers signed confirmation tickets after agreeing them to the Bloomberg system to ensure the transaction was complete and accurate.
- Investments recorded in the general ledger were reconciled to the investment detail recorded in the QED system monthly.
- Investment income and transaction information were agreed to trustee information on a daily basis.
- Investment transaction detail from the bank was reconciled to the internal transaction detail reports monthly.
- Investment transactions were reported to the Investment Board members quarterly.

The distribution of income from investments and the determination of net capital gains and losses were performed in accordance with Chapter 7, Title 57-724, of the Code.

The Investment Manager quarterly advised the Investment Board as to the percentages of the various types of holdings in the fund as required by the Policy, Objective 1, Paragraph 2.

The Investment Board presented a summary report to the legislature of all securities, including investments sold, purchased or acquired by the Endowment Fund since the last report, and the net profit or loss resulting from the sales or purchases of such investments as required by Chapter 7, Title 57-725, of the Code.

The Investment Board has employed Deloitte & Touche LLP, an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2002, required by Chapter 7, Title 57-720, of the Code.

All Objectives Met

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****CURRENT YEAR COMMENTS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2002**

Observation:

We observed that Endowment Fund Investment Board (the "Endowment Board") general ledger is reported on a cash basis rather than the accrual basis as required by state statute, and that no entries were recorded in the general ledger to adjust the trial balance to the accrual basis. In particular, no adjustments were recorded in the general ledger to accrue unsettled investment trades, accrued interest receivable, income from securities lending, and distributions to beneficiaries of the Public fund.

Recommendation:

We recommend that the Endowment Board record transactions on the accrual basis. As part of management's review of accrual entries at year end, we recommend developing an efficient system to record and track accrual entries from year to year. As recommended previously, this may be accomplished through the use of an additional period (i.e., period 13) in the accounting system or a manual file to record all accrual entries at year end. Such treatment would allow management analysis of performance on a cash and accrual basis. In addition, tracking accrual in a separate period may facilitate proper reversal of prior year accrued entries for current year financial statement preparation.

Agency Response:

The 13th period software update has been installed.

Observation:

We observed the process for reconciliation transmissions from the Department of Lands (Lands) did not appear to be functioning on a timely basis from January 2002 to June 2002.

Recommendation:

We recommend that management continue to implement proper reconciliations of Land receipts.

Agency Response:

Management is implementing a comprehensive reconciliation process for receipt and investment activity.

Observation:

We observed that a new document titled Idaho Endowment Board Investment Policy Statement was adopted by the Endowment Board of Directors (the "Board") in the August, 2001 meeting. A new, condensed version of the Variable Spending Policy was also drafted. It is unclear as to which document assumes priority if there are contradictions between the documents. Having more than one policy document covering similar issues may cause confusion among staff and outside fund managers, which may eventually result in non-compliance with the applicable policies and procedures.

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****CURRENT YEAR COMMENTS AND RECOMMENDATIONS (continued)**
YEAR ENDED JUNE 30, 2002

Recommendation:

We recommend that management consolidate the desired policies and procedures into one seamless document so that the information is clear and easy to follow for staff and the outside investment managers. Verify that the new document is distributed and understood by the parties to whom it applies.

Agency Response:

A consolidated document is being prepared for approval from the Board.

Observation:

We observed that the Board consisted of only eight members after the August 23, 2001 Board Meeting, while the Code requires that the Board consist of nine members. Section 57-719 states that a vacancy shall be filled by the governor for the unexpired term. We noted in the personnel files that on September 10, 2001, the ninth member of the Board, Barbara Wilson resigned from the Board. This vacancy has not been filled. An extended vacancy in this position would be a violation of sections 57-718 & 57-719 of the Idaho Code.

Recommendation:

We recommend that management encourage the necessary procedures to enlist a ninth member to the State of Idaho Endowment Fund Investment Board.

Agency Response:

Implemented.

Observation:

The Variable Spending Policy (August 2000) states that Yankee bonds are limited to 5% of the market value of the fixed income portion of the total portfolio. We observed that Yankee bonds made up 5.5% of the market value for the Public School fixed income portfolio and 6.6% of the Pooled fixed income portfolio.

Recommendation:

We recommend that investment managers monitor the market value of Yankee bonds within the fixed income portion of the total portfolio to assure compliance with internal investment policies.

Agency Response:

Adjustments have been made to bring holdings into compliance.

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****PRIOR YEAR COMMENTS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2002**

Observation:

Substantially all proceeds received for investment by the Endowment Fund Investment Board (the Investment Board) originates at the Department of Lands (Lands). As funds are received by Lands, a transmittal listing all receipts for various state agencies is prepared to accompany the cash received from timber sales and other sources which is forwarded to the State Treasurer's office. A copy of this transmittal is forwarded to the Investment Board if it contains entries which reflect amounts deposited on behalf of any of the funds the Investment Board manages. The Investment Board reviews the transmittal and posts activity indicated by fund numbers 152 and 322. The Investment Board then requests transfers of these funds from the Treasurer for investment. The Investment Board then performs a reconciliation of items recorded to cash received and investigates any differences. Our audit procedures revealed a difference in amounts confirmed to us by Lands as being transmitted to the Investment Board from the amounts recorded by the Investment Board, which was caused by undetected coding errors. Because cash activity is initiated at Lands and flows to the Treasurer before being received by the Investment Board, the Investment Board does not have the data necessary to reconcile the activity without a control listing from Lands.

Recommendation:

We strongly recommend that Lands provide a monthly listing of all fund transmittal transactions to the Investment Board for reconciliation of activity. Any unreconciled items identified by the Investment Board should be investigated and resolved through correspondence with Lands' accountants within one week of the previous month end.

Status:

The Investment Board is receiving the monthly listing of transactions and is reconciling them monthly.

Observation:

We noted that the Investment Board maintains its general ledger on the cash basis and manually converts balances to the accrual basis at year end.

Recommendation:

As part of management's review of accrual entries at year end, we recommend developing a more efficient system to record and track accrual entries from year to year. We suggest that an additional period (i.e., period 13) be added to the accounting system to record all accrual entries at year end. Such treatment would allow management to analyze performance on a cash and accrual basis. In addition, tracking accruals in a separate account may facilitate proper reversal of prior year accrued entries in preparation for current year financial statements.

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****PRIOR YEAR COMMENTS AND RECOMMENDATIONS (continued)**
YEAR ENDED JUNE 30, 2002

Status:

See current year comment. - Implemented

Observation:

We observed that the new accounting system is not fully utilized by the Investment Board Management to gain efficiencies in reporting and analysis of financial information.

Recommendation:

We recommend training for professionals within the accounting system. Training may provide efficiencies in generating financial reconciliations and reports, allowing professionals additional time to manage the business. Additionally, we recommend that management utilize available temporary employees to assist in gaining and documenting a better understanding of the reporting capabilities of the accounting system, allowing professionals to continue day to day operations.

Status:

Implemented.

Observation:

The distribution for expense activity for Department of Lands and the Investment Board are currently recorded in the same account in the general ledger.

Recommendation:

We recommend that separate accounts be established for each operation which will eliminate the need to separate activity for future analysis purposes.

Status:

Implemented.

Observation:

Unsettled trades of outside money managers as of year end, were not posted to the general ledger. Amounts were corrected by audit adjustment.

EXHIBIT II

STATE OF IDAHO ENDOWMENT FUNDS**Administered by the Endowment Fund Investment Board****PRIOR YEAR COMMENTS AND RECOMMENDATIONS (continued)**
YEAR ENDED JUNE 30, 2002

Recommendation:

We recommend that all unsettled trades be reviewed and adjusted at year end. The adjustment should be included with the 13th period adjustments for year end closing consideration in the following year.

Status:

Implemented.

IDAHO STATE LAND BOARD / ENDOWMENT FUND INVESTMENT BOARD

State of Idaho Endowment Funds

2002 Audit Presentation

Executive Summary

1. Department of Lands/Endowment Receipts Reconciliation
 - a) Required like prior year but less complicated.
 - b) Future reconciliations will be compared directly to STARS.
2. Auditors' Reports issued
 - a) Report on General Purpose Financial Statements—**Unqualified.**
 - b) Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed In Accordance With *Government Auditing Standards*—**No instances of non-compliance** under *Government Auditing Standards* and no material weaknesses in internal control over financial reporting.
 - c) Report on Examination of Management's Assertions—**Exceptions** noted (see below).
3. Review of Findings and Recommendations
 - a) Implement accrual basis year-end closing procedures.
 - b) Implement timely reconciliation process with Department of Lands.
 - c) Correct inconsistencies in policy statements.
 - d) Fill empty Board position.
 - e) Rebalance fixed income portfolio.
 - f) Fully utilize the capabilities of accounting software to increase efficiencies.
 - g) Establish separate accounts for expense activity for the Department of Lands and the Investment Board in the general ledger.

IDAHO STATE LAND BOARD / ENDOWMENT FUND INVESTMENT BOARD

State of Idaho Endowment Funds

2002 Audit Presentation

Manager's Report**1. Staff Response to Audit Findings**

- a) Implement accrual basis year-end closing procedures: the 13th period software update has been installed. Will provide accrual accounting for the year-end closing period.
- b) Implement timely reconciliation process with Department of Lands: lands data is being reconciled monthly, including daily updates on cash flows. We are working with the State Controller's office to further streamline this process. We expect significant efficiencies to be gained from this work.
- c) Correct inconsistencies in policy statements: we are performing a formal review of our investment policy statement in conjunction with our consultant. The policy will be presented to the Endowment Fund Investment Board for approval at the May meeting.
- d) Fill empty Board position: there are currently no empty board positions. We have had preliminary discussions with the Governor's office about the three committee members whose terms have expired. These members are continuing to serve providing us a fully staffed board.
- e) Rebalance fixed income portfolio: positions are internally monitored monthly for compliance with all applicable policies and regulations. Additionally, we are researching system options to monitor individual and overall portfolio compliance. Further policy violations will be avoided.
- f) Fully utilize the capabilities of accounting software to increase efficiencies: additional training has been received, and is ongoing. We have substantially improved efficiencies by reducing the number of accounting entries through the use of summary entries only. In addition, we are continuing to work closely with the Controller's Office to determine if we can further streamline the process by using the STARS system for all accounting, thus eliminating the internal general ledger system.
- g) Establish separate accounts for expense activity for the Department of Lands and the Investment Board in the general ledger: these accounts have been established, and all expenses will be maintained separately going forward.

Audit Policy - Draft

1. Audit Contract:

- Independent auditors will serve a 5-year term.
- No extensions will be granted.
- An RFP will be issued in October of the year before the current audit contract expires (October of year 5).
- The Endowment Fund Investment Board and staff will review the RFP responses, and interview the finalists.
- The recommended audit firm will be brought to the Land Board, and the State Treasurer for review, and final approval.

2. Audit Presentation:

- The audit will be presented formally to the Land Board, Endowment Fund Investment Board, and State Treasurer annually (in September or October of each year).
- This presentation will include a one page executive summary report prepared by the independent auditor. This report will highlight any findings, and the actions being taken to address them.
- The Manager of Investments will prepare a to-do list based on the audit findings and provide this to the Land Board, Endowment Fund Investment Board, and State Treasurer for ongoing monitoring of progress in addressing the issues.
- A subsequent follow-up meeting will take place 6 months following the initial audit presentation (in March or April of each year) to address resolution of the audit findings from the prior fall, and discuss any potential areas of concern that need to be addressed prior to the next audit.

3. Accountability:

- The Manager of Investments accepts full responsibility for all audit findings, and will lead the process to assure the timely resolution of said findings.

Clearwater Advisors, LLC – Cash Management

MANAGER PROFILE

March 2003

<u>Address:</u>	250 South 5th Street Suite 150 Boise, ID 83702	<u>Ownership:</u>	Limited Liability Company 100% Employee Owned
<u>Contact:</u>	Mr. Douglas K. Bates		
<u>Product Founded:</u>	2002		
<u>Key Personnel:</u>	10 Investment Professionals Douglas Bates, Principal David Boren, Principal Michael Boren, Principal Christopher Growney, Principal		

Philosophy:

To provide consistent, low volatility returns that meet or exceed the assigned portfolio benchmarks. These objectives are accomplished by:

- Constructing liquid, diversified portfolios
- Utilizing technology in market analysis
- Minimizing portfolio transaction costs
- Identifying value in potential purchases
- Continually evaluating the portfolio strategy and new market opportunities.

Process:

- Identify Client Objectives
- Formulate Investment overview and strategy
- Construct Portfolio
- Monitor and Control Portfolio Risk
- Analyze Portfolio Performance

A web-based, transparent system is available to clients for convenience, portfolio compliance, and performance evaluation.

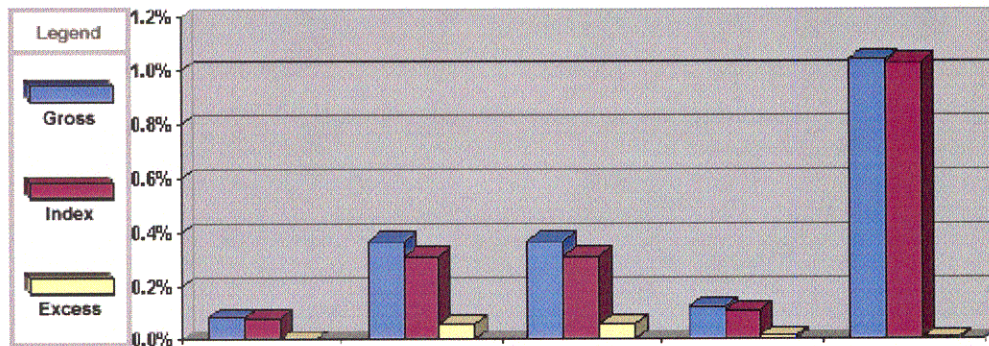
Personnel:

The four principals of the firm are actively involved in the day-to-day operation of the firm. Their backgrounds include derivative trading and sales, trading fixed income, and managing large institutional portfolios. Six other employees enhance the portfolio management and daily operations of the firm. Clearwater uses a team approach where communication and transparency among all employees is top priority.

Clearwater Advisors, LLC – Cash Management

MANAGER PERFORMANCE February 2003

Index: 3-Month Constant Maturity Libor Index (LUS3)



	Curr Month 02/28/03 - 03/20/03	Curr Quarter 12/31/02 - 03/20/03	Curr Year 12/31/02 - 03/20/03	Prev Month 01/31/03 - 02/28/03	Prev Year 06/19/02 - 12/31/02
Gross Return	0.083%	0.369%	0.369%	0.122%	1.042%
Index Return	0.081%	0.312%	0.312%	0.107%	1.032%
Excess Return	0.002%	0.057%	0.057%	0.015%	0.010%
Tracking Error	---	---	---	---	---

Artisan Partners – Mid Cap Growth Equity

MANAGER PROFILE

March, 2003

Address: 1000 North Water St.
Milwaukee, WI 53202

Ownership: Partnership
70% Employee Owned

Contact: Darren DeVore

Product Founded: 1994

Key Personnel: 25 investment professionals
Andrew Stephens, Managing Director/Portfolio Manager
James Hamel, Associate Portfolio Manager
Jason White, Analyst
Tom Wooden, Analyst

Key Investment Points:

- Bottom-up stock selection process searching for companies with dominant market share, proprietary assets, a low-cost producer in the industry, and a defensible brand name.
- Attractive franchises are identified using screens for quality, value, and earnings revisions.
- Artisan carries out in-depth analysis to determine key company issues. Factors analyzed include revenues, margins, competitive position, company management, and market cycle.
- The remaining candidates undergo in-depth intrinsic value analysis where organic growth, cash generation, and business model risks are evaluated.
- Purchase stocks that are at a discount to their present market value.
- Focus on market caps between \$1 and \$10 billion.
- The portfolio will hold 45-80 stocks with no one position greater than 5%.
- Positions are sold when they approach full valuation, fundamentals deteriorate, or more attractive opportunities arise.

Statistics:

Investment Statistics:

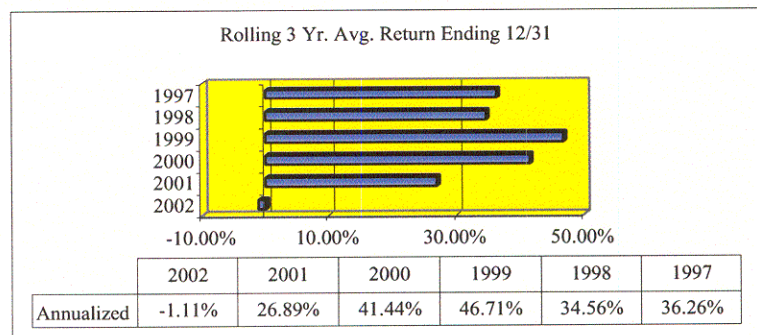
Alpha* 16.51
Beta* 0.86
R-Squared* 92%
Info Ratio* 1.51
Correlation** 0.96
Std. Deviation* 32.57%

Avg. Mkt. Cap \$5.7 Bil
Mkt. Cap Range \$1-10 Bil
Turnover 150%

* 5 years

** 7 years

Returns:

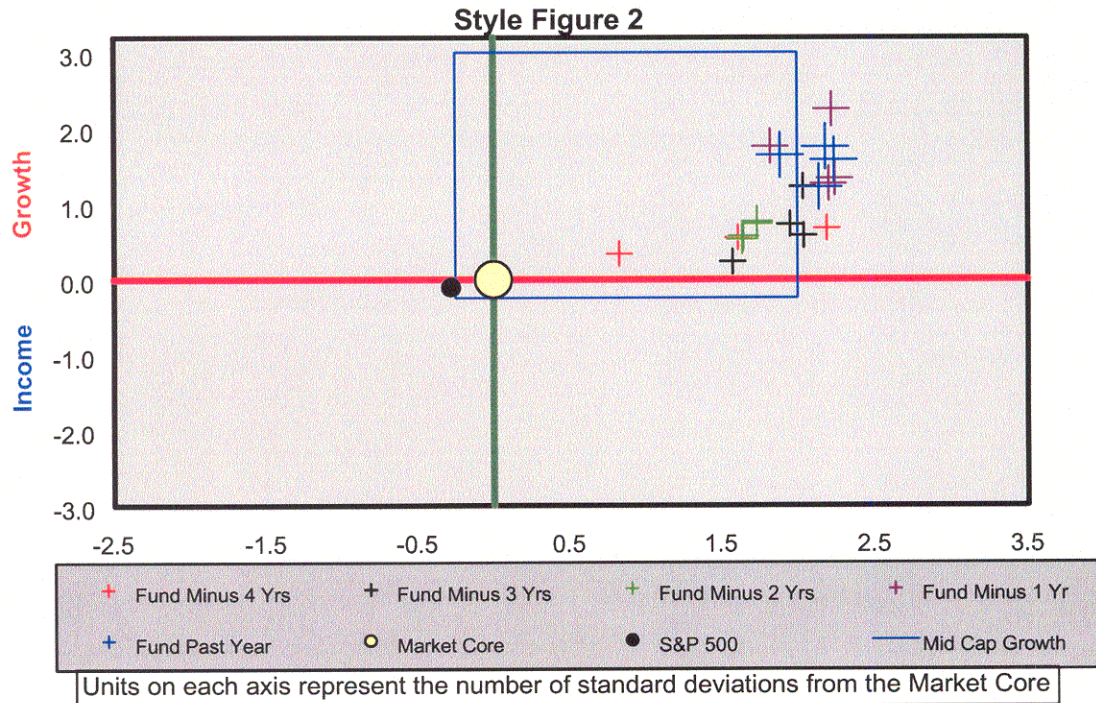


ARTISAN MID CAP GROWTH

Factor Based Style History

For the Quarter Ended: 4Q02

Style Peer Group: Mid Cap Growth



Quarter Ended	Income Growth	Firm Risk
4Q02	1.64	1.89
3Q02	1.75	2.19
2Q02	1.22	2.14
1Q02	1.58	2.24
4Q01	2.25	2.22
3Q01	1.34	2.25
2Q01	1.76	1.83
1Q01	1.27	2.20
4Q00	0.76	1.74
3Q00	0.53	1.64
2Q00	0.74	1.74
1Q00	0.57	1.65
4Q99	1.23	2.04
3Q99	0.58	2.04
2Q99	0.74	1.95
1Q99	0.24	1.57
4Q98	0.34	0.83
3Q98	0.68	2.19
2Q98	0.55	1.61

This plot and table show the portfolio's Factor Style History over the past 20 quarters (or for as many quarters as are available).

The current Style Peer Group is shown as the blue box.

The Market Core portfolio is shown at the center. The Market Core Portfolio is proxied by the Vanguard Total Stock Market Portfolio.

The scale on each Factor Style dimension represents the number of standard deviations that the portfolio was from the Market Core at the end of a given quarter.

Oppenheimer Capital – Mid Cap Value Equity

MANAGER PROFILE

December 2002

Address: 1345 Ave. of the Americas
New York, NY 10105

Ownership: 100% Owned by Allianz

Contact: Kerry Anne Murphy

Product Founded: 1994

Key Personnel: 39 investment professionals
Louis Goldstein, Managing Director
Brad Holmes, Vice President
John Ajay, Vice President

Key Investment Points:

- Bottom-up stock selection starts with the universe of \$500 million to \$8 billion market cap companies.
- 1,400 stocks in universe.
- Seeking high quality companies and those reducing capital intensity.
- Areas emphasized include assessment of business quality and cash flow versus accounting distortions.
- Not looking specifically for reversion to the mean, a typical value trait.
- Fundamental research narrows list of candidates to 100.
- The mid cap value team conducts objective, comprehensive reviews of their holdings, and re-evaluate their positions as though they were making an original buy decision.
- Sell review is triggered when the price approaches full intrinsic value, fundamentals or risk factors change, or when prices move sharply in either direction.
- The portfolio will hold 45-55 stocks with no one position greater than 6%.
- Sector benchmark cognizant; stays within 10% of Russell Mid Cap Value Index.
- Performance component emphasized in manager compensation.

Statistics:

Returns:

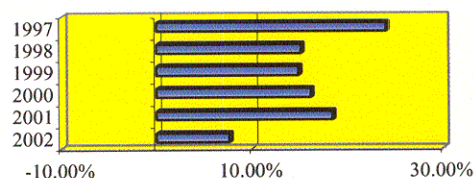
Investment Statistics:

Alpha*	7.20
Beta*	1.02
R-Squared**	66%
Info Ratio*	0.12
Correlation**	0.81
Std. Deviation*	23.24%
Avg. Mkt. Cap	\$4.6 Bil
Mkt. Cap Range	\$0.5-8 Bil
Turnover	80%

* 5 years

** 7 years

Rolling 3 Yr. Avg. Return Ending 12/31



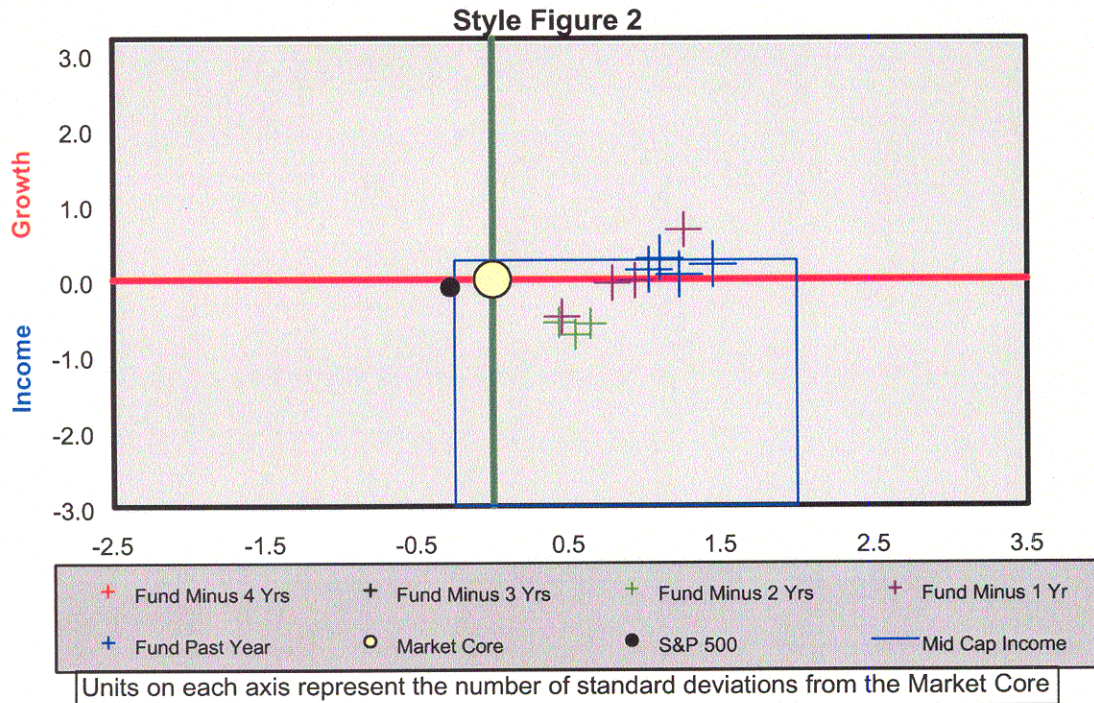
	2002	2001	2000	1999	1998	1997
Annualized	7.65%	18.37%	16.12%	14.86%	15.07%	23.99%

OPPEMHEIMER MID CAP VALUE

Factor Based Style History

For the Quarter Ended: 4Q02

Style Peer Group: Mid Cap Income



Quarter Ended	Income Growth	Firm Risk
4Q02	0.28	1.11
3Q02	0.12	1.03
2Q02	0.06	1.23
1Q02	0.20	1.45
4Q01	0.65	1.26
3Q01	-0.02	0.94
2Q01	-0.05	0.79
1Q01	-0.50	0.46
4Q00	-0.58	0.44
3Q00	-0.60	0.65
2Q00	-0.73	0.55
1Q00	0.00	0.00
4Q99	0.00	0.00
3Q99	0.00	0.00
2Q99	0.00	0.00
1Q99	0.00	0.00
4Q98	0.00	0.00
3Q98	0.00	0.00
2Q98	0.00	0.00

This plot and table show the portfolio's Factor Style History over the past 20 quarters (or for as many quarters as are available).

The current Style Peer Group is shown as the blue box.

The Market Core portfolio is shown at the center. The Market Core Portfolio is proxied by the Vanguard Total Stock Market Portfolio.

The scale on each Factor Style dimension represents the number of standard deviations that the portfolio was from the Market Core at the end of a given quarter.

Systematic Financial Management – Mid Cap Value Earnings Surprise

MANAGER PROFILE

December 2002

Address: 300 Frank W. Burr Blvd. **Ownership:** 55% Affiliated Managers
Teaneck, NJ 07666 45% Employee Owned

Contact: Eoin Middaugh

Product Founded: 2000

Key Personnel: 13 investment professionals
Joe Joshi, Chief Investment Officer
Kevin McCreesh, Senior Portfolio Manager
Ron Mushhock, Portfolio Manager
Joseph Sharma, Assistant Portfolio Manager
Mike DeBernardis, Senior Analyst

Key Investment Points:

- Quantitative process following the theory that stock prices will follow earnings.
- Systematic believes that Wall Street consistently under reacts to fundamental changes, and that a positive earnings surprise is a good predictor of future earnings surprises.
- Criteria analyzed include sales growth, margin improvements, and future expectations both for the company and Wall Street's predictions.
- Systematic seeks to avoid companies using aggressive accounting practices to boost earnings rather real earnings increases. Red flags include margin deterioration, early revenue recognition, and increasing inventories.
- Systematic will sell a position based on: 1) market capitalization; 2) valuation; 3) fundamental change in the company; as well as, 4) in the event of a significant negative earnings surprise.
- The portfolio will hold 70-75 stocks with no one position greater than 5%; Cap ranges between \$1-10 billion
- No one sector is may be over 30%.

Statistics:

(Estimated blend of Large, Mid and Small)

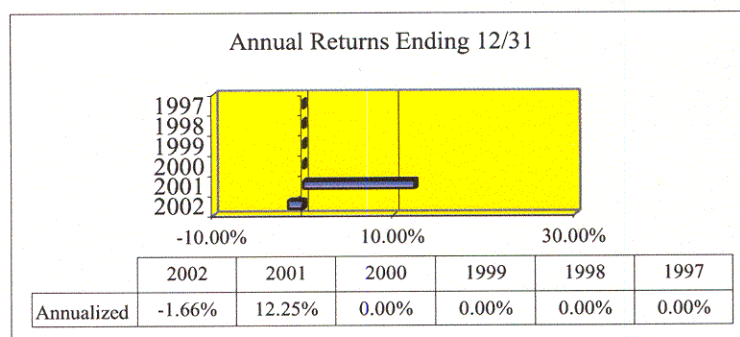
Investment Statistics:

Alpha*	7.20%
Beta*	1.02
R-Squared**	66%
Info Ratio*	-
Correlation**	0.81
Std. Deviation*	22.13%
Avg. Mkt. Cap	\$3.8 Bil
Mkt. Cap Range	\$1-10 Bil
Turnover	125%

* 5 years

** 7 years

Returns:

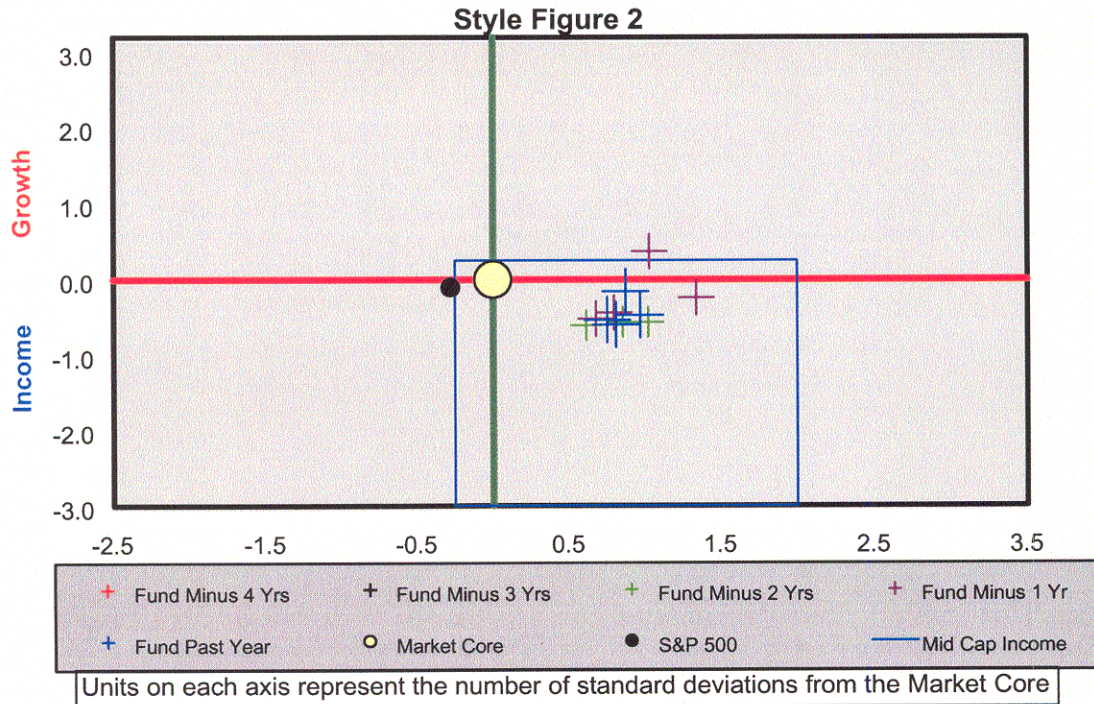


SYSTEMATIC MID CAP VAL

Factor Based Style History

For the Quarter Ended: 4Q02

Style Peer Group: Mid Cap Income



Quarter Ended	Income Growth	Firm Risk
4Q02	-0.53	0.76
3Q02	-0.16	0.87
2Q02	-0.60	0.81
1Q02	-0.47	0.97
4Q01	-0.52	0.68
3Q01	-0.44	0.80
2Q01	0.37	1.03
1Q01	-0.25	1.34
4Q00	-0.57	1.02
3Q00	-0.60	0.61
2Q00	-0.57	0.86
1Q00	0.00	0.00
4Q99	0.00	0.00
3Q99	0.00	0.00
2Q99	0.00	0.00
1Q99	0.00	0.00
4Q98	0.00	0.00
3Q98	0.00	0.00
2Q98	0.00	0.00

This plot and table show the portfolio's Factor Style History over the past 20 quarters (or for as many quarters as are available).

The current Style Peer Group is shown as the blue box.

The Market Core portfolio is shown at the center. The Market Core Portfolio is proxied by the Vanguard Total Stock Market Portfolio.

The scale on each Factor Style dimension represents the number of standard deviations that the portfolio was from the Market Core at the end of a given quarter.

Northern Trust Investments, Inc. – Large Cap Index Management

MANAGER PROFILE

March 2003

<u>Location:</u>	Chicago, IL	<u>Ownership:</u>	Publicly Owned (NTRS)
<u>Contact:</u>	Marc Carlson		
<u>Product Founded:</u>	S&P 500 Strategy, founded October 1998 Russell 1000 Growth & Value Strategy, Founded December 2000		
<u>Key Personnel:</u>	Patrick Cannon		

Philosophy:

Northern Trust seeks to match the performance of the specified benchmark at the same level of risk.

Process:

Northern Trust employs a full-replication method of indexing for the S&P 500 Index, Russell 1000 Growth Index and Russell 1000 Value index in which we are recommending investment. Quantitative techniques allow Northern to replicate the performance with minimal tracking error.

Performance:

	Quarter	1 – Year	3 – Year	5 – Year
Northern Equity Index Fund	8.45%	-22.05%	-14.49%	-0.53%
<i>S&P 500 Index</i>	<i>8.43%</i>	<i>-22.10%</i>	<i>-14.55%</i>	<i>-0.59%</i>
Northern Russell 1000 Growth	7.14%	-27.80%	N/A	N/A
<i>Russell 1000 Growth Index</i>	<i>7.15%</i>	<i>-27.88%</i>	<i>N/A</i>	<i>N/A</i>
Northern Russell 1000 Value	9.14%	-15.52%	N/A	N/A
<i>Russell 1000 Value Index</i>	<i>9.22%</i>	<i>-15.52%</i>	<i>N/A</i>	<i>N/A</i>

Fees:

Northern Trust Proposal:

First \$100 million: .04% (4 basis points)

Above \$100 million: .01% (1 basis point)

Average fee for EFIB: .029% (2.9 basis points)

Securities Lending Revenue: 60% to Endowment, 40% to Northern Trust

Current Arrangement at Key Bank:

S&P 500 Index: .03% (3 basis points)

R1000 Growth and Value Indexes: .08% (8 basis points)

Average fee for EFIB: .055% (5.5 basis points)

Securities Lending Revenue: none

Anticipated Annual Savings: \$43,000 plus incremental securities lending revenue



RBC Dain Rauscher – Consulting Services

Fee Schedule March 2003

Proposal:

RBC Dain Proposal:

First \$20 million: .15% (15 basis points)

\$20 million - \$100 million: .05% (5 basis points)

Above \$100 million: .02% (2 basis points)

Approx fee for EFIB (based on \$600 million): \$170,000

Current Arrangement at Dain Rauscher:

Flat annual fee: \$250,000

Anticipated Savings over Remaining Life of Contract (through 5/31): \$13,000

	CONSULTANT LIST FOR RFP	Response
1	ANGELES ADVISORS Santa Monica, California 90401	Yes
2	ASSET CONSULTING GROUP St. Louis, Mo. 63105	Yes
3	BIDART & ROSS, INC. Reno, Nevada 89521	Yes
4	BILKEY KATZ Pittsburg, PA 15222	Yes
5	CALLAN ASSOCIATES Chicago, Illinois 60602	Yes
6	CAMBRIDGE ASSOCIATES Boston, MA 02110-1740	No
7	DE MARCHE ASSOCIATES, INC. Overland Park, KS 66202	No
8	EVALUATION ASSOCIATES Norwalk, CT 06854	No
9	IDAHO TRUST COMPANY Boise, Idaho 83702	Yes
10	JEFFERY SLOCUM & ASSOCIATES, INC. Minneapolis, MN 55401	No
11	WILLIAM M. MERCER & ASSOCIATES Los Angeles, California 90017	Yes
12	MERRILL LYNCH Boise, Idaho 83702	Yes
13	MILLIMAN USA Seattle, Washington 98101	Yes
14	R. V. KUHN & ASSOCIATES Portland, Oregon 97205	Yes
15	RBC DAIN Dallas, TX 75204	Yes
16	ROCATON INVESTMENT ADVISORS Darien, CT 06820	No
17	SMITH BARNEY Ketchum, ID 83340-6141	Yes
18	STRATEGIC INVESTMENT SOLUTIONS San Francisco, CA 94108	No
19	STRATFORD ADVISORY GROUP Chicago, IL 60661	No
20	WATSON WYATT WORLDWIDE Seattle, WA 98104	No
21	WILSHIRE ASSOCIATES Santa Monica, CA 90401	Yes

ENDOWMENT FUND INVESTMENT BOARD
DETAILED EARNINGS RESERVE CASH FLOWS
AS OF MARCH 31, 2003

	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03
<u>PUBLIC SCHOOL</u>										
BALANCE	20,799,065	(1,015,359)	7,406,364	9,335,300	14,555,008	20,097,297	22,873,029	25,906,713	4,078,619	4,612,568
INVESTMENT INCOME	784,336	1,059,962	769,391	606,458	1,692,894	822,707	591,053	940,731	696,986	345,651
MONEY FROM LANDS	1,238,740	7,361,761	1,159,545	5,123,839	3,849,395	7,016,875	2,442,631	1,029,183	836,963	1,113,286
EFIB EXPENSES				(510,589)		(300,000)		(759,583)		(525,000)
LANDS EXPENSES						(4,763,850)		(1,381,925)	(1,000,000)	
DIST-BENEFICIARIES	(23,837,500)							(21,656,500)		
PROJECTED YEAR-END G/(L)										
END OF MONTH BALANCE	(1,015,359)	7,406,364	9,335,300	14,555,008	20,097,297	22,873,029	25,906,713	4,078,619	4,612,568	5,546,505
<u>POOLED</u>										
BALANCE	14,437,760	12,446,732	12,182,621	12,653,168	13,174,736	14,883,877	14,344,420	14,042,284	11,021,102	11,804,583
INVESTMENT INCOME	385,789	511,306	346,964	315,086	756,306	415,942	254,904	420,096	329,569	179,750
MONEY FROM LANDS		885,000	1,784,000	2,118,810	2,613,252	2,941,168	1,103,377	712,958	1,114,329	1,133,975
EFIB EXPENSES	(716,400)			(251,911)				(375,744)		(500,000)
LANDS EXPENSES						(2,236,150)		(2,118,075)	1,000,000	
DIST-BENEFICIARIES	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)	(1,660,417)
PROJECTED YEAR-END G/(L)										
END OF MONTH BALANCE	12,446,732	12,182,621	12,653,168	13,174,736	14,883,877	14,344,420	14,042,284	11,021,102	11,804,583	10,957,891

REVISED WITH LAND DEPT ESTIMATES REDUCED AS OF MARCH 17, 2003
PROJECTED G/L NUMBER IN JUNE IS BASED ON LOSSES AS OF FEB 28, 2003

ENDOWMENT FUND INVESTMENT BOARD
DETAILED EARNINGS RESERVE CASH FLOWS
AS OF MARCH 31, 2003

	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04
<u>PUBLIC SCHOOL</u>										
BALANCE	5,546,505	4,763,084	5,242,251	(14,829,359)	(13,644,578)	(9,782,578)	(3,031,879)	5,247,684	5,052,809	7,846,859
INVESTMENT INCOME	1,395,813	591,375	591,140	861,031	728,250	345,949	1,395,813	591,375	585,300	1,100,000
MONEY FROM LANDS	415,771	781,499	1,593,750	3,323,750	3,233,750	7,004,750	6,983,750	2,213,750	2,808,750	2,073,750
EFIB EXPENSES			(600,000)		(100,000)	(600,000)	(100,000)		(600,000)	(100,000)
LANDS EXPENSES	(2,595,005)			(3,000,000)				(3,000,000)		
DIST-BENEFICIARIES			(21,656,500)							(18,875,000)
PROJECTED YEAR-END G/(L)		(893,707)								
END OF MONTH BALANCE	4,763,084	5,242,251	(14,829,359)	(13,644,578)	(9,782,578)	(3,031,879)	5,247,684	5,052,809	7,846,859	(7,954,391)
<u>POOLED</u>										
BALANCE	10,957,891	9,479,957	7,541,297	6,130,305	5,381,336	5,767,336	7,202,986	9,339,924	7,500,424	7,071,174
INVESTMENT INCOME	642,188	299,375	258,258	420,281	345,250	179,900	341,188	288,750	275,000	550,000
MONEY FROM LANDS	758,390	777,922	377,000	2,277,000	1,537,000	3,302,000	3,292,000	1,318,000	1,342,000	1,002,000
EFIB EXPENSES			(600,000)		(50,000)	(600,000)	(50,000)		(600,000)	(50,000)
LANDS EXPENSES	(1,218,095)			(2,000,000)				(2,000,000)		
DIST-BENEFICIARIES	(1,660,417)	(1,660,417)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)
PROJECTED YEAR-END G/(L)		(1,355,540)								
END OF MONTH BALANCE	9,479,957	7,541,297	6,130,305	5,381,336	5,767,336	7,202,986	9,339,924	7,500,424	7,071,174	7,126,924

REVISED WITH LAND DEPT ESTIMATES REDUCED AS OF MARCH 17, 2003
PROJECTED G/L NUMBER IN JUNE IS BASED ON LOSSES AS OF FEB 28, 2003

ENDOWMENT FUND INVESTMENT BOARD
DETAILED EARNINGS RESERVE CASH FLOWS
AS OF MARCH 31, 2003

	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04
<u>PUBLIC SCHOOL</u>									
BALANCE	(7,954,391)	(7,955,641)	(5,906,891)	(3,113,141)	(544,391)	(21,104,391)	(17,079,391)	(13,304,391)	(6,094,391)
INVESTMENT INCOME	725,000	550,000	1,350,000	800,000	525,000	925,000	575,000	475,000	1,550,000
MONEY FROM LANDS	1,273,750	2,098,750	1,443,750	1,768,750	1,390,000	3,300,000	3,200,000	7,335,000	7,305,000
EFIB EXPENSES		(600,000)			(600,000)	(200,000)		(600,000)	
LANDS EXPENSES	(2,000,000)				(3,000,000)				
DIST-BENEFICIARIES					(18,875,000)				
PROJECTED YEAR-END G/(L)									
END OF MONTH BALANCE	(7,955,641)	(5,906,891)	(3,113,141)	(544,391)	(21,104,391)	(17,079,391)	(13,304,391)	(6,094,391)	2,760,609
<u>POOLED</u>									
BALANCE	7,126,924	4,532,674	4,073,424	3,804,174	3,619,924	498,674	952,424	1,326,174	2,974,924
INVESTMENT INCOME	325,000	275,000	575,000	410,000	275,000	460,000	325,000	265,000	440,000
MONEY FROM LANDS	627,000	1,012,000	702,000	852,000	650,000	1,540,000	1,495,000	3,430,000	3,415,000
EFIB EXPENSES		(300,000)	(100,000)		(600,000)	(100,000)		(600,000)	
LANDS EXPENSES	(2,100,000)				(2,000,000)				
DIST-BENEFICIARIES	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)	(1,446,250)
PROJECTED YEAR-END G/(L)									
END OF MONTH BALANCE	4,532,674	4,073,424	3,804,174	3,619,924	498,674	952,424	1,326,174	2,974,924	5,383,674

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